

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

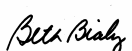
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Northville District Library

**Financial Report
with Supplemental Information
November 30, 2006**

Northville District Library

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Independent Auditor's Report

To the Members of the Board
Northville District Library
Northville, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of Northville District Library as of and for the year ended November 30, 2006, as listed in the table of contents. These financial statements are the responsibility of Northville District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of Northville District Library as of November 30, 2006 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

January 12, 2007

Northville District Library

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of Northville District Library (the "Library") provides an overview of the Library's financial activities for the fiscal year ended November 30, 2006.

Financial Highlights

The following represents the most significant financial highlights for the year ended November 30, 2006:

- The financial report for the year ended November 30, 2006 reflects the third year of complete implementation of Governmental Accounting Standards Board Statement Number 34. That Statement significantly changed the content and format of governmental financial reporting. Accordingly, these statements present both entity-wide financial reporting in addition to reporting financial information at the fund level. A reconciliation of the net change in fund balance to the change in net assets is provided on page 19.
- Overall, revenues and expenditures were consistent with the prior year. Noteworthy items include the following:
 1. Tax revenue was very close to the budgeted amount. Interest rates went up faster than the finance committee anticipated when the budget was created. Even though the budget was amended to reflect greater revenue, the amount exceeded the budgeted amount. After several years of modest tax refunds, 2006 refunds were nearly \$14,000. Friends' donations are not budgeted and what is not spent remains in the fund balance.
 2. The Library is still in contract negotiations and, with no settlement for a second fiscal year, \$154,754 of funds were not spent. This amount represents both a portion of the funds allocated for salary and the prior fund balance. Actual medical insurance premiums were up about 20 percent. Employee contributions to the premium for the health insurance did not occur and thus fringe benefits were about 6 percent over budget. The unspent funds will be reallocated in the 2007 budget.
 3. The Library created a new budget item - MERS Retiree Health Pre-funding to ensure the Library makes regular contributions to future retiree health care.
 4. The Library created a budget item for Fund for Building Preservation. This amount, \$50,000, is in addition to any unspent funds in the building/equipment maintenance budget item. Technology funds were purposely under spent in order to save for the future expense of converting the library to RFID technology in that category.
 5. An unanticipated change in the charging formula for the Library's automated circulation service resulted in higher than budgeted expenses.
 6. Prolonged contract negotiation with the Library's union resulted in higher than budgeted legal fees. In 2005, most of the allocated funds in legal fees were not spent.

Northville District Library

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers and users have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' and users' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements by providing information about the Library's funds.

The Library as a Whole

The following table shows, in a condensed format, the current year's net assets compared to the prior year:

	2006	2005	Changes from Prior Year	
			Dollars	Percent
Assets				
Current assets	\$ 795,974	\$ 736,860	\$ 59,114	8.0
Capital assets	5,433,324	5,653,383	(220,059)	(3.9)
Total assets	6,229,298	6,390,243	(160,945)	(2.5)
Liabilities				
Current liabilities	431,782	454,483	(22,701)	(5.0)
Noncurrent liabilities	3,000,000	3,275,000	(275,000)	(8.4)
Total liabilities	3,431,782	3,729,483	(297,701)	(8.0)
Net Assets				
Invested in capital assets - Net of related debt	2,158,324	2,128,383	29,941	1.4
Restricted - Debt service	90,379	73,844	16,535	22.4
Unrestricted	548,813	458,533	90,280	19.7
Total net assets	<u>\$ 2,797,516</u>	<u>\$ 2,660,760</u>	<u>\$ 136,756</u>	<u>5.1</u>

The above increase in net assets is due primarily to the Library preparing for capital projects which are a part of the long-term planning as well as preparing for the additional costs that will be required by implementing Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*.

Northville District Library

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year in comparison with the prior year:

	2006	2005	Changes from Prior Year	
			Dollars	Percent
Revenue				
Property taxes	\$ 2,394,039	\$ 2,221,256	\$ 172,783	7.8
State aid	19,861	26,986	(7,125)	(26.4)
Other income	157,791	128,651	29,140	22.7
Total revenue	2,571,691	2,376,893	194,798	8.2
Expenditures				
Wages and benefits	1,187,886	1,124,582	63,304	5.6
Facilities	220,123	189,073	31,050	16.4
MERS health care contribution	163,006	115,518	47,488	41.1
Depreciation	377,192	349,100	28,092	8.0
Debt service	150,325	164,725	(14,400)	(8.7)
Other	336,403	187,736	148,667	79.2
Total expenditures	2,434,935	2,130,734	304,201	14.3
Excess of Revenue Over Expenditures	\$ 136,756	\$ 246,159	\$ (109,403)	(44.4)

The increase in revenue primarily reflects the overall increase in the taxable value of the Northville area. Other income increased from the prior year due to improved fixed income investment earnings.

The increase in expenditures is due primarily to the pre-funding of postemployment health care costs as described in Note 7.

The Library's Funds

The Library maintains three funds: the General Fund, the Reserve Fund, and the Debt Service Fund. All three funds are considered major funds. The fund financial statements provide detailed information about the funds, not the Library as a whole. The Library board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as debt service payments.

General Fund Budgetary Highlights

The General Fund accounts for all programming, maintenance, capital investments, and administrative functions of the Library. The budget is monitored closely and amended quarterly, if needed.

The General Fund pays for all of the Library's services. The most significant are program activities.

Northville District Library

Management's Discussion and Analysis (Continued)

The Debt Service Fund did not have a budget adopted by the Library board for the year ended November 30, 2006. This type of fund is not required by State of Michigan law to have a budget adopted.

Capital Asset and Debt Administration

At the end of fiscal year 2006, the Library had approximately \$5,400,000 (net of depreciation) invested in a broad range of capital assets, including books, buildings, technology equipment, and furniture.

The Library has a Debt Service Fund. This fund allows for the collection of a dedicated millage approved by taxpayers for debt service of the 1998 Refunding Bonds and the related debt service payments.

Economic Factors and Next Year's Budgets and Rates

The value of property within the Northville area has grown beyond the rate of inflation. This is due primarily to new commercial and residential development projects. With the close of fiscal year 2006, funds of \$375,000 have been designated for capital and technology projects. The evaluation of capital improvements and technology investments will continue to be a focus in the future.

Contacting the Library's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Northville District Library's office at 212 West Cady Street, Northville, Michigan 48167, or via the Library's Web site at www.northville.lib.mi.us.

Northville District Library

Governmental Funds Balance Sheet/Statement of Net Assets November 30, 2006

	Modified Accrual Basis					Full Accrual Basis
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government-wide Statement of Net Assets
Assets						
Cash and cash equivalents (Note 2)	\$ 282,485	\$ 431,037	\$ 82,452	\$ 795,974	\$ -	\$ 795,974
Due from other funds	-	97,561	7,927	105,488	(105,488)	-
Capital assets - Net of accumulated depreciation (Note 3)	-	-	-	-	5,433,324	5,433,324
Total assets	<u>\$ 282,485</u>	<u>\$ 528,598</u>	<u>\$ 90,379</u>	<u>\$ 901,462</u>	5,327,836	6,229,298
Liabilities						
Accounts payable	\$ 22,243	\$ -	\$ -	\$ 22,243	134,539	156,782
Due to other funds	105,488	-	-	105,488	(105,488)	-
Long-term debt (Note 4):						
Due within one year	-	-	-	-	275,000	275,000
Due in more than one year	-	-	-	-	3,000,000	3,000,000
Total liabilities	127,731	-	-	127,731	3,304,051	3,431,782
Net Assets						
Fund balances:						
Reserved for debt service	-	-	90,379	90,379	(90,379)	
Designated for facilities and capital projects	-	322,003	-	322,003	(322,003)	
Designated for technology projects	-	53,230	-	53,230	(53,230)	
Designated for retiree health care contributions and other anticipated expenditures	-	153,365	-	153,365	(153,365)	
Designated for contingencies	154,754	-	-	154,754	(154,754)	
Undesignated	-	-	-	-	-	
Total fund balances	<u>154,754</u>	<u>528,598</u>	<u>90,379</u>	<u>773,731</u>	<u>(773,731)</u>	
Total liabilities and net assets	<u>\$ 282,485</u>	<u>\$ 528,598</u>	<u>\$ 90,379</u>	<u>\$ 901,462</u>		
Invested in capital assets - Net of related debt					2,158,324	2,158,324
Restricted - Debt service					90,379	90,379
Unrestricted					548,813	548,813
Total net assets					<u>\$ 2,797,516</u>	<u>\$ 2,797,516</u>

Northville District Library

Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended November 30, 2006

	Modified Accrual Basis					Full Accrual Basis
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government- wide Statement of Activities
Revenues						
Property taxes	\$ 1,984,723	\$ -	\$ 409,316	\$ 2,394,039	\$ -	\$ 2,394,039
Penal fines	29,231	-	-	29,231	-	29,231
Rentals and fees - Library user services	9,994	-	-	9,994	-	9,994
Overdue fines	40,340	-	-	40,340	-	40,340
State aid	19,861	-	-	19,861	-	19,861
Donations	15,492	-	-	15,492	-	15,492
Interest earnings	37,255	17,935	7,544	62,734	-	62,734
Total revenues	2,136,896	17,935	416,860	2,571,691	-	2,571,691
Expenditures						
Wages and salaries	856,746	-	-	856,746	2,727	859,473
Fringe benefits and payroll taxes	328,413	-	-	328,413	-	328,413
Postage	2,670	-	-	2,670	-	2,670
Operating supplies	22,091	-	-	22,091	-	22,091
Telephone	4,131	-	-	4,131	-	4,131
Copier expense	7,660	-	-	7,660	-	7,660
Insurance	22,133	-	-	22,133	-	22,133
Utilities and janitorial	141,782	-	-	141,782	-	141,782
Repairs and maintenance	78,341	-	-	78,341	-	78,341
Education and training	6,163	-	-	6,163	-	6,163
Capital outlay:						
Books	226,800	-	-	226,800	(226,800)	-
Equipment	26,873	-	-	26,873	(26,873)	-
Other	13,380	-	-	13,380	(13,380)	-
Special programs	8,768	-	-	8,768	-	8,768
Legal	13,791	-	-	13,791	-	13,791
Audit fees	6,845	-	-	6,845	-	6,845
Contractual services	11,843	-	-	11,843	-	11,843
Leases of equipment	1,464	-	-	1,464	-	1,464
Advertising and public relations	31,226	-	-	31,226	-	31,226
Auto circulation system services	24,185	-	-	24,185	-	24,185
Technology	49,402	-	-	49,402	-	49,402
Other	14,111	-	-	14,111	109,920	124,031
MERS health care contribution	50,000	113,006	-	163,006	-	163,006
Depreciation	-	-	-	-	377,192	377,192
Debt service	-	-	400,325	400,325	(250,000)	150,325
Total expenditures	1,948,818	113,006	400,325	2,462,149	(27,214)	2,434,935
Excess of Revenues Over (Under) Expenditures	188,078	(95,071)	16,535	109,542	27,214	136,756
Other Financing Sources (Uses) - Transfer in (out) - General Fund residual	(97,561)	97,561	-	-	-	-
Net Change in Fund Balances	90,517	2,490	16,535	109,542	27,214	136,756
Fund Balances/Net Assets - December 1, 2005	64,237	526,108	73,844	664,189	1,996,571	2,660,760
Fund Balances/Net Assets - November 30, 2006	<u>\$ 154,754</u>	<u>\$ 528,598</u>	<u>\$ 90,379</u>	<u>\$ 773,731</u>	<u>\$ 2,023,785</u>	<u>\$ 2,797,516</u>

Northville District Library

Notes to Financial Statements November 30, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of Northville District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

Northville District Library serves the City of Northville and Northville Township. The Library is governed by a seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

In addition to presenting information for the General Fund, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northville District Library

Notes to Financial Statements November 30, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

The Library reports the following major governmental funds:

General Fund - Operating Fund - The Operating Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. Operating Fund activities are financed by revenue from general property taxes, state aid, and other sources.

Special Revenue Fund - Reserve Fund - The Reserve Fund is used to account for assets in excess of current operating needs.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with the building debt.

Fund balance has been reserved and net assets have been restricted for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

Northville District Library

Notes to Financial Statements November 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due without penalty during the period from December 1 through February 28. Taxes are considered delinquent as of March 1, at which time they are added to the county tax rolls with penalty.

The delinquent real property taxes of the Library are purchased by Wayne and Oakland Counties. The counties sell tax notes, the proceeds of which are used to pay the Library for these property taxes. Oakland County remitted its share of the purchased delinquent real property taxes in August 2006. Wayne County remitted its share of the purchased delinquent real property taxes in August 2006. Both Wayne and Oakland County's shares of delinquent real property taxes have been recorded as revenue in the current year.

The 2005 taxable valuation of the Library district totaled \$2.1 billion, on which ad valorem taxes levied consisted of 0.9573 mills for the Library's operating purposes and 0.1985 mills for debt service. The ad valorem taxes levied raised \$2 million for operations and \$413,000 for debt service. These amounts are recognized in the respective Operating and Debt Service Funds financial statements as tax revenue.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$500 capitalization threshold.

Northville District Library

Notes to Financial Statements November 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and equipment	7-15 years
Collections	10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Northville District Library

Notes to Financial Statements November 30, 2006

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Library's investment policy permits investment in all investment vehicles allowable by state law.

The Library's investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Library will not be able to recover the value of its investments. At year end, the Library had \$47,223 of bank deposits, all of which were covered by FDIC insurance. The Library's policy for custodial credit risk limits bank options to those approved by the board of trustees.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pools	\$ 748,455	21 days

Northville District Library

Notes to Financial Statements November 30, 2006

Note 2 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library's policy limits dealer options to those approved by the board of trustees. All dealers must be affiliated with a bank or shall be classified as reporting dealers in compliance with the uniform net capital rule. Dealers must also supply audited financial statements, state registration, and certification of compliance with the Library's investment policy. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 748,455	A-1	S&P

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance December 1, 2005	Additions	Disposals and Adjustments	Balance November 30, 2006
Governmental Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,639,524	\$ -	\$ -	\$ 4,639,524
Furniture and equipment	576,414	26,873	(4,564)	598,723
Collections	3,584,054	240,180	(269,094)	3,555,140
Subtotal	8,799,992	267,053	(273,658)	8,793,387
Accumulated depreciation:				
Buildings and improvements	927,904	92,790	-	1,020,695
Furniture and equipment	271,523	58,921	(2,282)	328,162
Collections	1,947,182	225,481	(161,456)	2,011,207
Subtotal	3,146,609	377,192	(163,738)	3,360,063
Net capital assets being depreciated	\$ 5,653,383	\$ (110,139)	\$ (109,920)	\$ 5,433,324

Northville District Library

Notes to Financial Statements November 30, 2006

Note 4 - Long-term Debt

Outstanding Debt

Long-term debt activity of the Library's governmental activities was as follows:

	Balance December 1, 2005	Reductions	Balance November 30, 2006	Due Within One Year
1998 Refunding Bonds, general obligation bonds with interest ranging from 4.00 percent to 6.00 percent, maturing through April 1, 2015	\$ 3,525,000	\$ 250,000	\$ 3,275,000	\$ 275,000

Defeased Debt

During 1998, the Library defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the basic financial statements. At November 30, 2006, \$3,195,000 of bonds outstanding are considered defeased.

Debt Service Requirements

The annual requirements of governmental fund resources to service the general obligation bonds as of November 30, 2006 are as follows:

Years Ending November 30	Principal	Interest	Total
2007	\$ 275,000	\$ 134,250	\$ 409,250
2008	300,000	117,000	417,000
2009	325,000	101,500	426,500
2010	350,000	88,000	438,000
2011	370,000	73,600	443,600
2012-2015	1,655,000	135,700	1,790,700
Total	\$ 3,275,000	\$ 650,050	\$ 3,925,050

Northville District Library

Notes to Financial Statements November 30, 2006

Note 5 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared and adopted by the Library board and subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2006 has not been calculated. There were no budget amendments during the current year. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a revenue and expense line item basis, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the budget as adopted by the Library board is included in the budgetary comparison schedules - General Fund - Operating Fund and Special Revenue Fund - Reserve Fund in the required supplemental information section.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Library has the following significant expenditure budget variances:

	Budget	Actual
General Fund:		
Friends donation expense	\$ -	\$ 13,380
Fringe benefits	309,000	328,413
Transfers	52,601	97,561

Based on the uncertain nature of donations, the Library does not budget for donation revenue and, as a result, it does not budget for related expenditures. Due to the favorable variances in various line items in the current year, the Library was able to transfer more to the Reserve Fund than budgeted. Fringe benefits were higher than budgeted due to the Library's belief that contract negotiations would be finalized during the year ended November 30, 2006. The negotiations called for higher wages and lower fringe benefits as the employees would begin paying a portion of their health insurance. Since contract negotiations were not finalized, the employees continue to operate under the previous contract.

Northville District Library

Notes to Financial Statements November 30, 2006

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical benefit claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (state pool member) (the "Authority") for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool and the Authority's state pool programs operate as common risk-sharing management programs for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. For the state pool program, a portion of the excess insurance coverage is underwritten by the Authority itself.

Note 7 - Postemployment Benefits

The Library reimburses Medicare insurance premiums for retirees eligible for Medicare. Currently there are four employees eligible. A participating retiree's contribution rate varies based on a vesting schedule from 20 percent to 100 percent. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$3,849. During the year, the Library made an initial pre-funding contribution of postemployment health care to a trust held by the Municipal Employees' Retirement System of Michigan (MERS) of \$163,006.

Note 7 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the Library’s government-wide financial statements to recognize the cost of providing retiree health care coverage, and create a liability if not actuarially funded, over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending November 30, 2010. The most recent estimate by management of the potential effect of this pronouncement on the Library, which was done in 2002, indicated that the postemployment benefit liability would be underfunded by approximately \$2,800,000 at that time.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Library participates in the Municipal Employees’ Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all regular employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the Library board.

Northville District Library

Notes to Financial Statements November 30, 2006

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2006, the Library's annual pension cost of approximately \$91,500 for the plan was equal to the Library's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year trend information for the years ended November 30 is as follows:

	2004	2005	2006
Annual pension cost (APC)	\$ 74,000	\$ 84,000	\$ 91,500
Percentage of APC contributed	100%	100%	100
Net pension obligation	\$ -	\$ -	\$ -

Three-year trend information for the actuarial valuation as of December 31 is as follows:

	2003	2004	2005
Actuarial value of assets	\$ 831,409	\$ 945,631	\$ 1,057,875
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,144,316	\$ 1,293,536	\$ 1,376,361
Unfunded AAL (UAAL)	\$ 312,907	\$ 347,905	\$ 318,486
Funded ratio	73%	73%	77%
Covered payroll	\$ 541,672	\$ 560,270	\$ 574,674
UAAL as a percentage of covered payroll	58%	62%	55%

Northville District Library

Notes to Financial Statements November 30, 2006

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 773,731
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	5,433,324
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,275,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(37,550)
Compensated absences are not included as a liability in the funds	<u>(96,989)</u>
Total Net Assets - Full accrual basis	<u><u>\$ 2,797,516</u></u>

Northville District Library

Notes to Financial Statements November 30, 2006

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis	\$ 109,542
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balances; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	267,053
Depreciation	(377,192)

Losses resulting from disposals of capital assets are reported in the statement of activities, but not in the fund financial statements	(109,920)
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Increase in accrual for long-term compensated absences is reported as an expenditure in the statement of activities, but not in the fund statements	(2,727)
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>250,000</u>
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Change in Net Assets - Full accrual basis	<u>\$ 136,756</u>
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Northville District Library

Notes to Financial Statements November 30, 2006

Note 10 - Community Foundation Endowment Fund

The Library participates in an endowment program sponsored by the Community Foundation for Southeastern Michigan (an unrelated nonprofit foundation). The Library has established a permanent endowment fund held by the Community Foundation for Southeastern Michigan. The purpose of the endowment fund is to provide unrestricted operating support for the Library from the endowment earnings. Funds are donated by outside donors for the benefit of the organization and are held and managed by the Community Foundation for Southeastern Michigan. Earnings are available for distribution to the organization for operations at the discretion of the Foundation; therefore, interest and principal balances are not reflected in the financial statements of the Library.

Required Supplemental Information

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund Year Ended November 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues				
Property taxes:				
Township support	\$ 1,681,048	\$ 1,681,048	\$ 1,698,429	\$ 17,381
City support	305,653	305,653	300,265	(5,388)
Tax refunds	(7,000)	(7,000)	(13,971)	(6,971)
State, local, and other:				
Direct local	21,000	21,000	19,861	(1,139)
Penal fines	30,000	30,000	29,231	(769)
Interest earnings	8,000	22,000	37,255	15,255
Library fines	30,000	30,000	40,340	10,340
Rentals:				
Library book rentals	600	600	833	233
Room rental	300	300	525	225
Printing services:				
Copier revenue	3,500	3,500	3,625	125
Printer revenue	4,000	4,000	5,011	1,011
Donations:				
Private donations	-	-	350	350
Friends donations	-	-	14,447	14,447
Gift books	-	-	695	695
Total revenues	2,077,101	2,091,101	2,136,896	45,795
Expenditures				
Personnel:				
Wages and salaries	921,000	921,000	856,746	64,254
Fringe benefits	309,000	309,000	328,413	(19,413)
MERS Retiree Health pre-funding	50,000	50,000	50,000	
Education and training	13,000	13,000	6,163	6,837
Workers' compensation	3,100	3,100	2,116	984
Payroll services	5,000	5,000	4,845	155
Membership fees	3,000	3,000	3,501	(501)

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund (Continued) Year Ended November 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Expenditures (Continued)				
Building and utilities:				
Building maintenance	\$ 95,000	95,000	\$ 78,341	\$ 16,659
Liability and property insurance	22,100	22,100	22,133	(33)
Electric	60,500	60,500	64,180	(3,680)
Housekeeping	39,700	39,700	41,919	(2,219)
Gas	21,000	21,000	26,030	(5,030)
Contractual services	6,900	6,900	6,998	(98)
Telephone	5,600	5,600	4,131	1,469
Housekeeping supplies	5,300	5,300	5,186	114
Water	7,000	7,000	6,126	874
Acquisitions:				
Books and subscriptions	215,900	215,900	223,953	(8,053)
Operating supplies	23,000	23,000	22,089	911
Electronic products	27,000	27,000	26,873	127
Book rental purchases	1,500	1,500	2,507	(1,007)
Support services:				
Technology	73,100	73,100	42,198	30,902
Auto circular system service	22,000	22,000	24,185	(2,185)
Telecommunications	11,200	11,200	7,204	3,996
The Library Network/Baker Taylor fees	9,800	9,800	6,837	2,963
Special programs	10,000	10,000	8,768	1,232
Copier expense	10,200	10,200	7,660	2,540
Postage	4,000	4,000	2,670	1,330
Other:				
Legal services	6,000	6,000	13,791	(7,791)
Leased equipment	1,500	1,500	1,464	36
Public relations	30,000	30,000	30,883	(883)
Auditing services	6,600	6,600	6,845	(245)
Advertising	500	500	343	157
Donation expenses:				
Book donation expense	-	-	340	(340)
Friends donation expense	-	-	13,380	(13,380)
Total expenditures	2,019,500	2,019,500	1,948,818	70,682
Transfer out	57,601	52,601	97,561	(44,960)
Net Change in Fund Balance	\$ -	\$ 19,000	\$ 90,517	\$ 71,517

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund - Reserve Fund Year Ended November 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues - Interest earnings	\$ -	\$ -	\$ 17,935	\$ 17,935
Expenses - MERS health care contribution	-	-	113,006	(113,006)
Residual Equity Transfer In	<u>57,601</u>	<u>52,601</u>	<u>97,561</u>	<u>44,960</u>
Net Change in Fund Balance	<u><u>\$ 57,601</u></u>	<u><u>\$ 52,601</u></u>	<u><u>\$ 2,490</u></u>	<u><u>\$ (50,111)</u></u>



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January 12, 2007

To the Library Board Members
Northville District Library
212 West Cady Street
Northville, MI 48167

Dear Board Members:

We have recently completed the audit of the financial statements for Northville District Library for the year ended November 30, 2006. In addition to the audit report, we offer the following comments and recommendations for your consideration:

Fund Balances

As we have discussed previously, the Library's operating millage is capped and also is subject to annual reductions as a result of the Headlee Amendment. Property taxes account for 93 percent of the Library's operating revenue. As the Township's growth stabilizes and the City continues to see normal "redevelopment" of properties, the Library's property taxes will not be able to increase by more than inflation. Given all of the increases in operating costs, including large increases in health care and pension costs, the Library will be challenged to maintain a healthy fund balance.

During the current year, the Library transferred approximately \$97,500 to the Reserve Fund from the Operating Fund, which increased the Reserve Fund fund balance to approximately \$530,000. This balance is designated to fund facility and capital projects, technology advances, and retiree health care.

The Operating Fund has maintained a fund balance of approximately \$155,000 which is designated for contingencies. This level of fund balance represents 8 percent of the annual expenditures of the Operating Fund. While the accumulation of fund balance in the Reserve Fund is a great accomplishment toward the long-term advances by the Library, we encourage the Library to continue its long-range planning efforts in order to determine the adequacy of the fund balance levels. Currently, a large contingency could surface and consume the Operating Fund fund balance, requiring Reserve Fund monies to be used for unintended needs.

Post-employment Benefits

The Library continues to make progress in the funding levels of retiree health care. An additional deposit of \$163,000 was made to the MERS retiree health care trust during the year and approximately \$153,000 of fund balance is designated for future deposits. The new Governmental Accounting Standards Board statement will take effect for the Library in 2009. We encourage management to continue to prepare for the impact of this new pronouncement, which will require the Library to report its total retiree health care obligation as well as its progress toward funding the liability.

January 12, 2007

Internal Control

During testing, we noted that one employee is responsible for preparing bank deposits, depositing the money in the bank, and maintaining all records related to cash deposits. While it is often difficult to implement proper segregation of duties in a lean organization such as yours, we recommend that these activities be segregated among employees to improve internal control.

We would again like to thank Julie Herrin and Judith Williams for the courtesy and cooperation extended to us during the audit. If you have any questions or require assistance in the implementation of our recommendations, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC



Beth A. Bialy



Christopher Jones